

General Fund Appropriations Trends

ISSUE

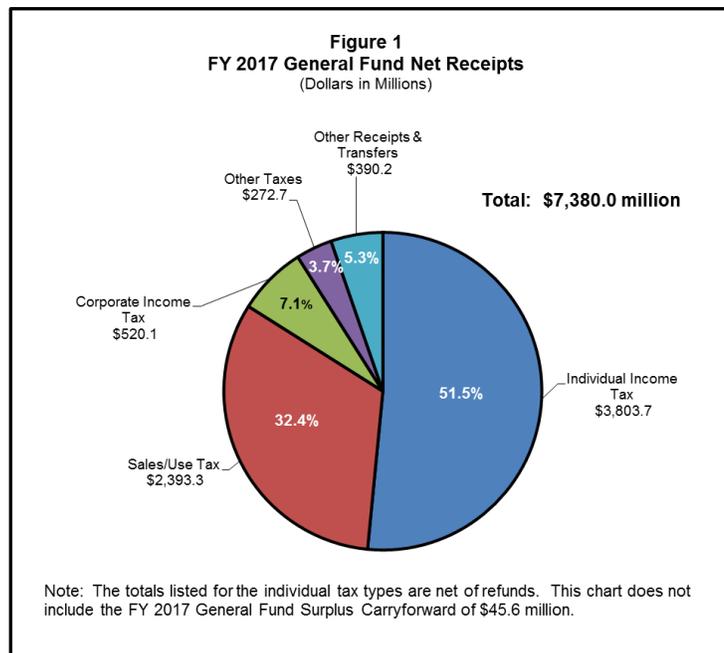
This **Issue Review** examines General Fund appropriations enacted over the past 30 years to provide insight into changes in General Fund spending. This report includes a basic explanation of the General Fund budget for FY 2017. Trends associated with broad categories of General Fund spending are reviewed to examine how funding has changed over time. The **Issue Review** also examines the State's use of tax credits to implement a variety of public policy initiatives.

OVERVIEW OF THE GENERAL FUND BUDGET

The State budget consists of a wide array of taxes, user fees, federal receipts, interest earnings, and revenues from numerous fines and other miscellaneous sources. By statute, all revenues remitted to the State are directed to specific funds to be used for specified purposes. The focus of this **Issue Review** is on Iowa's General Fund, which is the State's main operating fund from which most discretionary spending is provided. Appropriations from the General Fund make up approximately 86.0% of all appropriations from State funding sources (**Attachment A**).

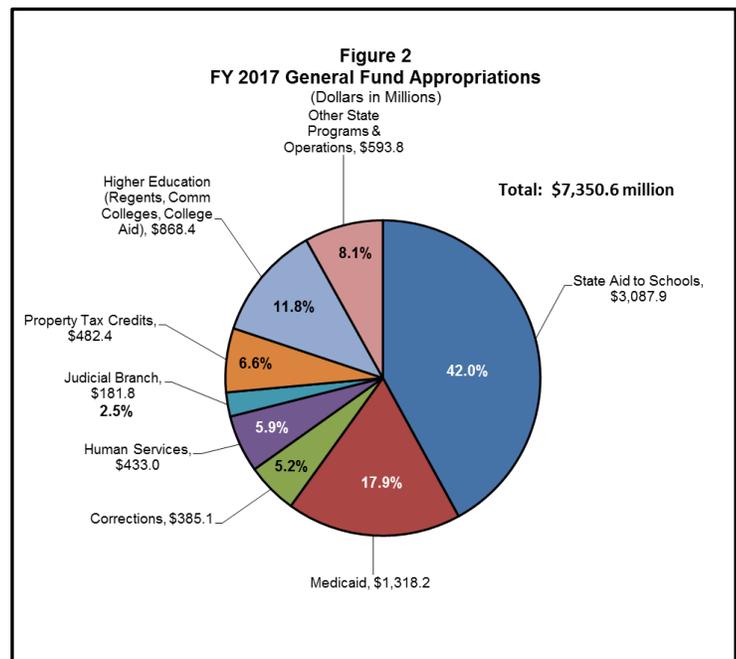
Iowa Code section [444.21](#) creates the General Fund and specifies that the moneys derived from taxes levied and other revenues collected for State general purposes comprise the General Fund of the State. In addition, any moneys remitted to the State treasury that do not have a designated fund for deposit are also deposited in the General Fund.

Iowa's General Fund consists largely of revenues derived from State individual income tax and the State sales and use tax. Together, the two sources comprise over 80.0% of total General Fund revenues. The remaining 20.0% of revenues comes from other sources including corporate income tax, inheritance tax, and insurance premium tax, as well as a host of other taxes, fees, and receipts. The current revenue estimate for the FY 2017 General Fund budget is \$7,380.0 million (**Figure 1**). Of this, 51.5% is from individual income tax and 32.4% is from the State sales and use tax. The corporate income tax comprises 7.1% of all revenues and the remaining 9.0% comes from a variety of other sources.



Spending from the General Fund is primarily accomplished through annual appropriations enacted by the General Assembly and signed into law by the Governor. Appropriations establish as spending authority for State agencies and as a result control spending and establish a budget.

A total of \$7,350.6 million was appropriated from the General Fund for FY 2017 (**Figure 2**). The majority of General Fund spending is directed to State Aid to Schools and Medicaid. Together, these two appropriations comprise approximately 60.0% of all General Fund spending. This percentage has remained relatively constant over the past several years. Other significant areas of General Fund spending include higher education (Regents Institutions and community colleges), corrections, human services programs, and property tax replacement.



CATEGORIES OF GENERAL FUND SPENDING

For purposes of analyzing trends of General Fund spending, the Legislative Services Agency (LSA) categorized appropriations into four general groups:¹ 1) State Government Operations, 2) Grants and Aid to Individuals, 3) Aid to Local Governments and Tax Relief, and 4) Capital Projects. A brief description of each category is below.

1. **State Government Operations** – Appropriations that provide funding for ongoing operational costs of State government. The appropriations in this group fund the operating budget of State departments. The single largest expenditure of departments' operating budgets is salaries and benefits of State employees.
2. **Grants and Aid to Individuals** – Funding for programs that provide direct financial assistance to individuals or reimburse organizations that provide assistance to individuals. This includes State funding directed to private and nonprofit organizations.
3. **Aid to Local Governments and Tax Relief** – Appropriations that reduce the tax burden of local governments and individuals (i.e., property tax credits, State aid to schools).
4. **Capital Projects** – Appropriations used for constructing or making major repairs to State facilities.

¹ Line item appropriations were categorized by LSA analysts based on the criteria of the category that best fit the purpose of the appropriations.

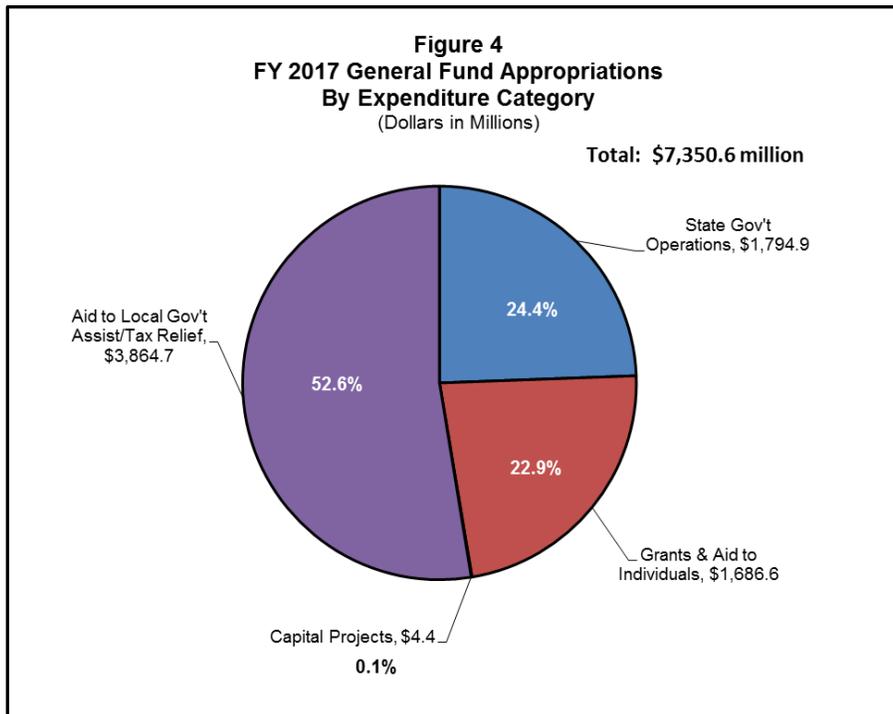
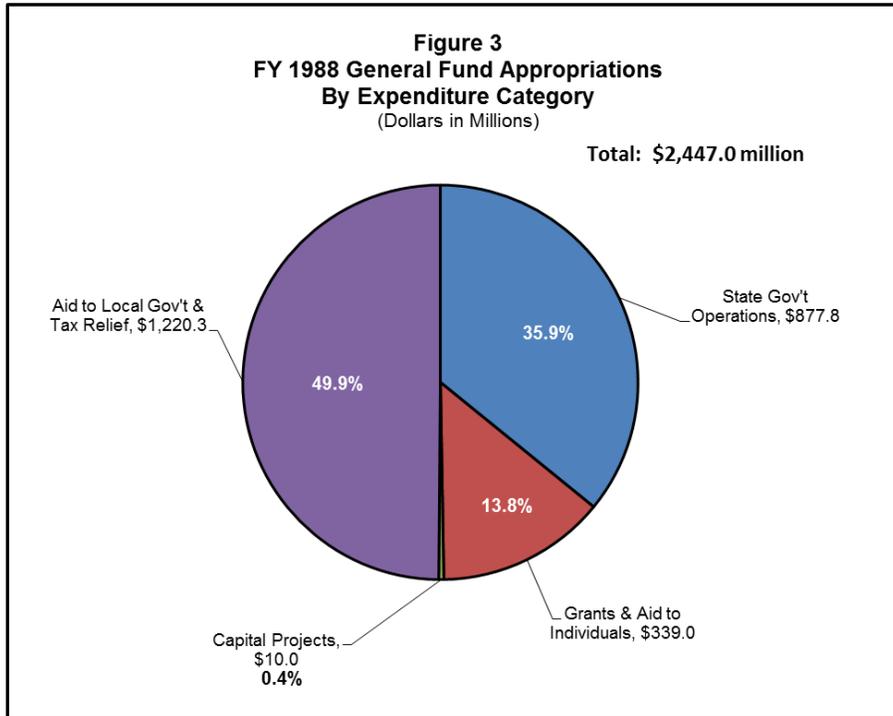
Of the four categories of appropriations, Aid to Local Governments and Tax Relief comprises the majority of General Fund spending (**Figures 3 and 4**). For FY 2017, these appropriations are 52.6% (\$3,864.7 million) of all General Fund spending. State aid to schools, which was appropriated an estimated \$3,087.9 million, is the largest appropriation in this category. Various property tax replacement appropriations are also accounted for in this category, comprising \$482.4 million in FY 2017 spending. The most notable property tax replacement appropriations include the [Homestead Property Tax Credit](#), [Commercial and Industrial Property Tax Replacement](#), and the [Business Property Tax Credit](#).

Grants and Aid to Individuals are nearly 23.0% (\$1,686.6 million) of the total appropriations for FY 2017. The largest appropriation in this category is the Medicaid program, which was funded at \$1,318.2 million in FY 2017. Other Human Services-related programs that provide aid to individuals were appropriated \$237.4 million in FY 2017, and include adoption subsidies, child and family services, child care assistance, and the Family Investment Program.

State Government Operations are about 24.4% (\$1,794.9 million) of the total FY 2017 General Fund appropriations. Included in the State Government Operations category is funding for the various departments of State government that are responsible for implementing State programs and policies. Some of the largest State agencies funded with General Fund moneys include the State Board of Regents and Regents Institutions, the Department of Corrections, and the Department of Human Services (DHS), including the State institutions under DHS purview.

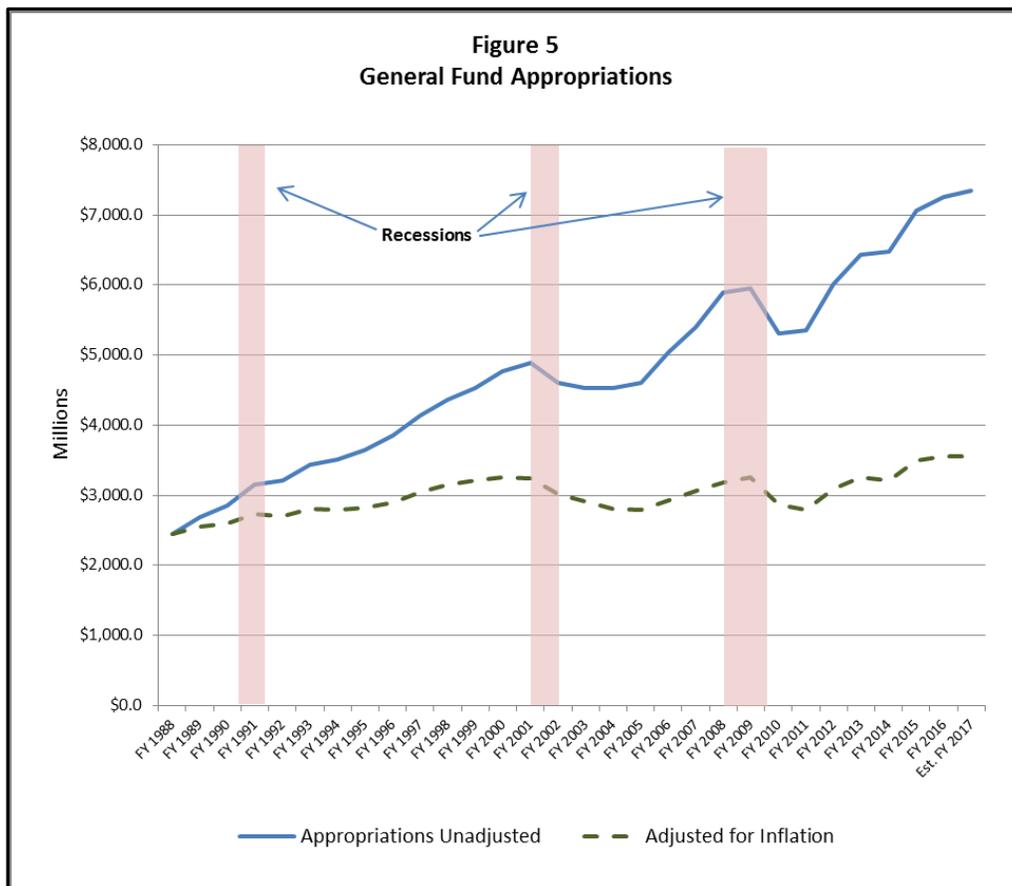
The last category, Capital Projects, is the smallest category of General Fund Spending. In FY 2017, \$4.4 million was appropriated for a capital project to implement water quality initiatives. Since FY 1996, the majority of capital projects have been funded through separate designated funding sources. The most prominent source for funding of capital projects is the Rebuild Iowa Infrastructure Fund (RIIF), which receives the majority of its revenue from the State wagering tax. The State has also issued revenue bonds throughout the years to fund a wide array of construction projects.

Figures 3 and 4 show how the composition of the appropriations have changed from FY 1988 to FY 2017. The most notable change has occurred within the Grants and Aid to Individuals category. In 1988, these appropriations made up 13.8% of all General Fund appropriations. In FY 2017, these appropriations now comprise 22.9%. Additionally, the proportion of appropriations for State Government Operations has decreased from 35.9% in FY 1988 to 24.4% in FY 2017. A chart showing the appropriations for each fiscal year by category for the last 30 years is included in **Figure 6**.



GENERAL FUND APPROPRIATION TRENDS

In FY 1988, General Fund appropriations totaled \$2,447.0 million. For FY 2017, the General Assembly enacted appropriations totaling \$7,350.6 million,² an increase of \$4,903.6 million during this 30-year period (**Figure 5**). This equates to an average annual increase of 3.9%. When adjusted for inflation using the Consumer Price Index (CPI) and stated in 1988 dollars, the growth during this 30-year period is 45.6% (\$1,129.2 million). The average annual increase in appropriations from FY 1988 to FY 2017, when adjusted for inflation, is 1.3%.



Over the 30-year period of FY 1988 to FY 2017, there were two periods when General Fund appropriations trended downward. These include the fiscal years from FY 2002 to FY 2005 and FY 2009 to FY 2011. These reductions in spending correspond closely to the two most recent economic recessions.³ Reductions in tax revenue collections typically lag behind economic downturns due to the timing of when taxes are remitted to the State. A reduction in General Fund tax revenues in FY 2002 was preceded by the recession that began in 2001 and required the General Assembly to reduce General Fund appropriations in order for the budget to remain balanced. By the close of FY 2002, General Fund appropriations had been reduced by \$279.4 million (5.7%) compared to FY 2001. Annual appropriations remained below the FY 2001 level until FY 2006.

² The FY 2017 appropriations were enacted by the General Assembly and signed into law by the Governor during the 2016 Legislative Session. The appropriations are considered estimates until the close of the 2017 fiscal year.

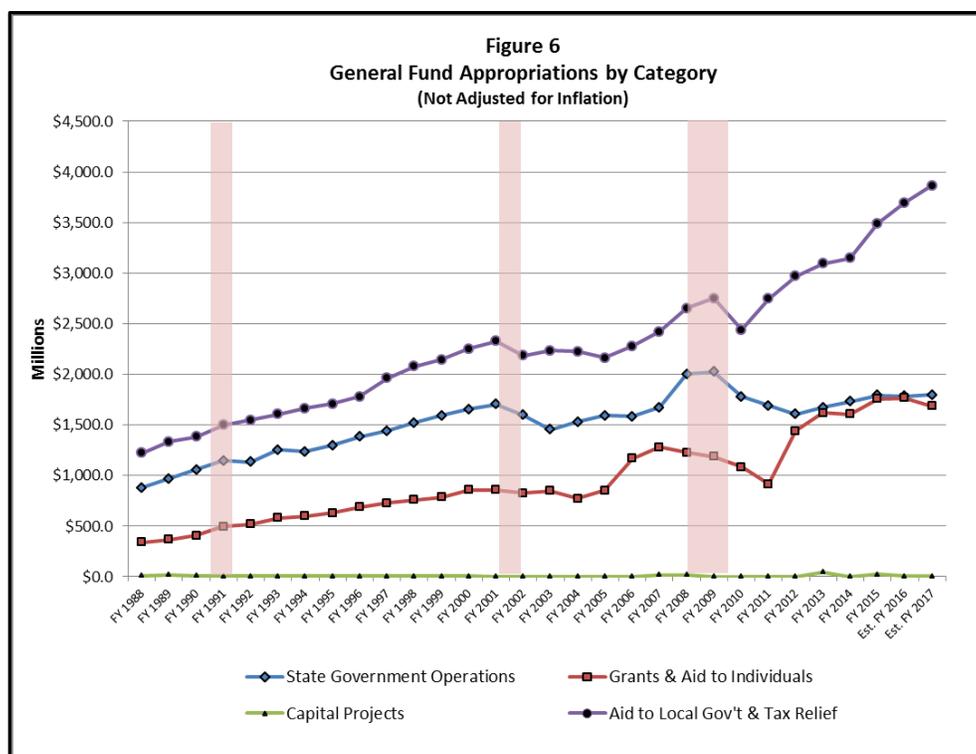
³ National Bureau of Economic Research, [US Business Cycle Expansions and Contractions](http://www.nber.org/papers/w17061).

Net General Fund receipts also began declining in the later part of FY 2009, following the recession of 2008; however, the largest reduction occurred in FY 2010. In October of 2009, the Revenue Estimating Conference lowered the FY 2010 General Fund revenue estimate by 7.1% (\$414.9 million). In order to maintain a balanced budget, the Governor issued an Executive Order requiring a 10.0% across-the-board reduction to all FY 2010 General Fund appropriations. This resulted in a reduction in General Fund appropriations of \$564.4 million. Appropriations for FY 2011 remained relatively level compared to FY 2010, increasing by 0.9%.⁴

Although General Fund appropriations were reduced during these two periods, some State programs, namely Medicaid, school aid, and property tax replacement, received non-General Fund appropriations to offset General Fund reductions. These non-General Fund sources consisted largely of tobacco settlement payments, federal stimulus funds through the American Recovery and Reinvestment Act of 2009 (ARRA), and the State’s reserve funds.⁵

General Fund spending increased \$660.6 million (12.3%) in FY 2012 as General Fund moneys replaced much of the one-time funding used during FY 2010 and FY 2011. In the fiscal years following FY 2012, General Fund appropriations have increased at an average annual rate of 4.1%.

Figure 6 shows the change in appropriations for each category from FY 1988 to FY 2017. Aid to Local Governments and Tax Relief appropriations contributed the most to the increase in spending over the last 30 years. Of the total \$4,903.6 million increase, these appropriations comprise 53.9% of the growth (\$2,644.5 million) and grew at an average annual rate of 4.1% during the 30-year period. Appropriations for State school aid account for \$2,103.9 million (79.6%) of the growth for the programs included in the Aid to Local Governments and Tax Relief category.



⁴ Fiscal Topic – [Across-the-Board Reductions](#), LSA, October 2009.

⁵ Issue Review – [General Fund Revenue Transfers and Appropriation Shifts](#), LSA, December 13, 2010.

Grants and Aid to Individuals accounted for 27.5% of the total growth. This category of appropriations experienced the fastest rate of growth during the last 30 years, growing at an average annual rate of 5.7%. The Medicaid appropriation within this category is responsible for the majority of the growth. In FY 1988, Medicaid was appropriated \$152.5 million, and grew to \$1,318.2 million for FY 2017, representing an average annual increase of 7.7%.

Appropriations for State Government Operations increased \$917.1 million from FY 1988 to FY 2017, which is 18.7% of the total growth during this period, or an average annual increase of 2.5%.

General Fund appropriations for Capital Projects are relatively insignificant compared to the overall General Fund budget, comprising only 0.1% of total appropriations. As previously mentioned, the majority of capital projects are funded with non-General Fund sources.

Figure 7 summarizes the comparison of General Fund appropriations of FY 1988 and FY 2017.

	FY 1988	FY 2017	Change	Percent of Total Change	Average Annual % Change
Aid to Local Gov't & Tax Relief	\$ 1,220.2	\$ 3,864.7	\$ 2,644.5	53.9%	4.1%
Grants & Aid to Individuals	339.0	1,686.6	1,347.6	27.5%	5.7%
State Gov't Operations	877.8	1,794.9	917.1	18.7%	2.5%
Capital Projects	10.0	4.4	-5.6	-0.1%	-2.8%
Total	\$ 2,447.0	\$ 7,350.6	\$ 4,903.6	100.0%	3.9%

TAX CREDITS

Tax credits are used for a variety of purposes. Iowa has approximately 40 tax credit programs, a majority of which support economic development and job creation initiatives. The more significant economic development-related tax credits include the Research Activities Tax Credit, the Historic Preservation and Cultural and Entertainment District Tax Credit, and the High Quality Jobs Tax Credit. There are also several tax credit programs that provide assistance to low-income individuals, such as the [Earned Income Tax Credit](#) and the Child and Dependent Care Tax Credit. A complete listing of the tax credits can be found in the Iowa Department of Revenue [Tax Credit Contingent Liabilities Report](#) that is published three times per year.

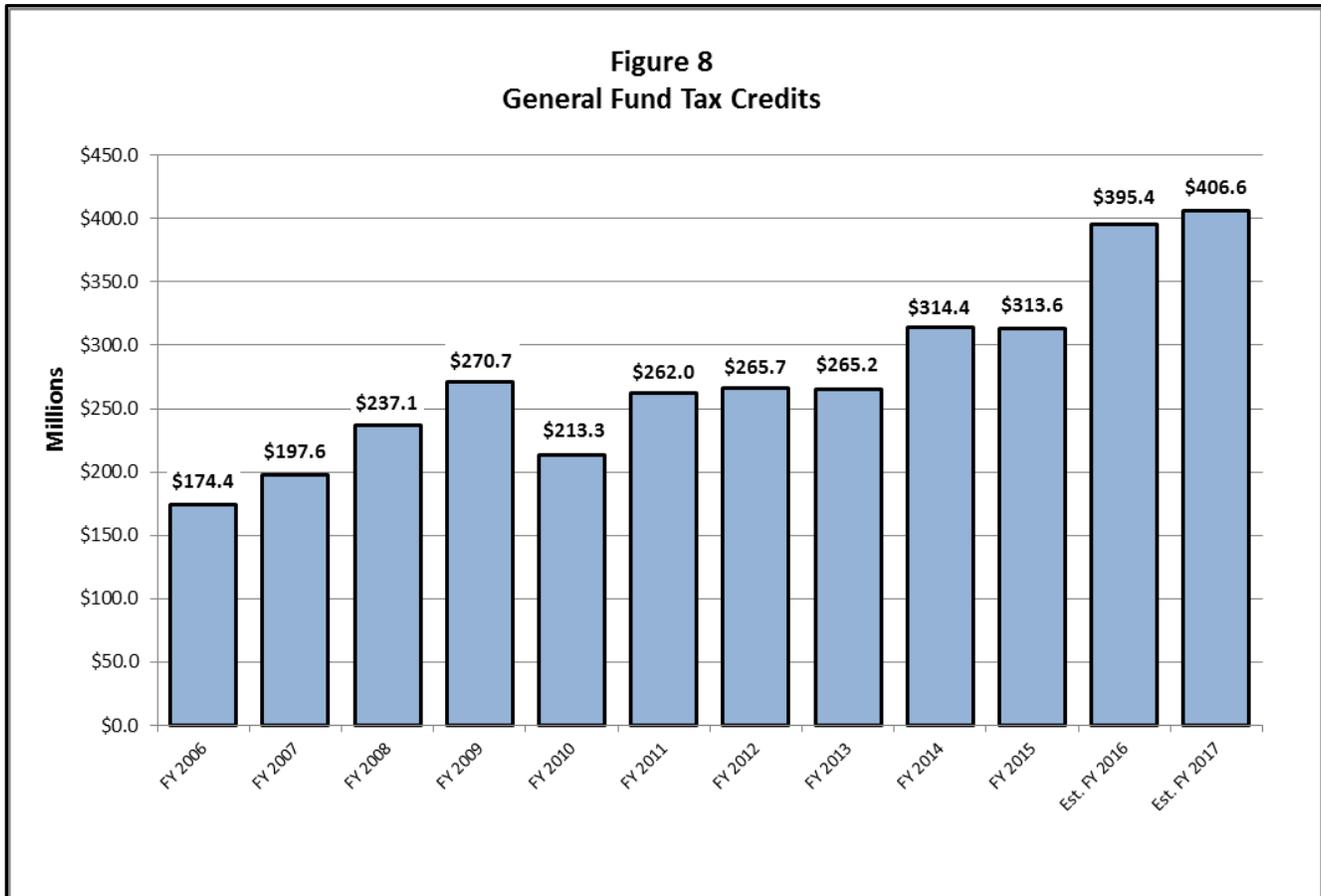
While tax credits provide a source of State funding for certain programs, they are different from appropriations in that they reduce General Fund tax revenue collections. General Fund appropriations are made annually through the legislative budget process, which results in predictable spending. By contrast, tax credits are generally funded by reducing the tax liability of individuals or corporations through income tax filings. Tax credits are also less predictable than appropriations, making it more difficult to forecast the impact on revenues.

To track the tax credit claims, the Iowa Department of Revenue extracts the information from filed income tax forms. The tax credit claims and awards are reported three times per year in the [Tax Credits Contingent Liabilities Report](#).⁶

⁶ Iowa Department of Revenue, [Tax Credits Contingent Liabilities Report](#), March 16, 2016.

The tax credit programs are, in essence, government spending and can be equated to appropriations that provide grants and financial assistance to businesses and individuals. The primary difference is that tax credits use the tax code as a means to deliver State funding for the designated initiatives.

The use of General Fund tax credits has steadily increased since FY 2006.⁷ From FY 2006 to FY 2015, actual claims increased \$139.1 million (79.8%), from \$174.4 million to \$313.6 million. Claims are estimated to increase by another \$93.0 million in FY 2017 (29.7%) to a peak of \$406.6 million (Figure 8).



⁷ In 2006, the Department of Revenue implemented a process to improve the tracking of tax credit claims through the creation of IA 148 Tax Credits Schedule.

SUMMARY

Iowa's General Fund is the primary operating fund of the State. Approximately 80.0% of the annual revenue deposited in the General Fund comes from individual income taxes and the State sales and use tax. Approximately 52.0% of spending from the General Fund is for appropriations that provide Aid to Local Governments and Tax Relief. Another 23.0% provides funding for Grant Programs and Aid to Individuals. The remaining 25.0% funds State Government Operations and Capital Projects. The General Fund has been used sparingly for funding Capital Projects, largely because the State has non-General Fund sources (i.e., Rebuild Iowa Infrastructure Fund) dedicated for these expenditures.

Over the 30-year period from FY 1988 to FY 2017, General Fund appropriations have increased \$4,903.6 million, representing an average annual increase of 3.9%. When adjusted for inflation, the rate of increase is 1.3%. Of the four appropriation categories examined in this **Issue Review**, Aid to Local Governments and Tax Relief and Grants and Aid to Individuals experienced increases of \$2,644.5 million and \$1,347.6 million, respectively. Appropriations for State Government Operations increased \$917.1 million while General Fund spending for Capital Projects decreased \$5.6 million.

During the 30-year period examined in this report, there were two periods when General Fund revenues and appropriations experienced relatively significant decreases. These include the fiscal years from FY 2002 to FY 2005 and FY 2009 to FY 2011. These reductions in spending correspond closely to the two most recent economic recessions of 2001 and 2008. The decrease in General Fund revenues in the years following the recessions caused policymakers to reduce General Fund spending in efforts to balance the budget. During these years, lawmakers used alternative non-General Fund sources of revenue (i.e., State reserve funds and federal ARRA moneys) to offset reductions to certain programs, namely Medicaid and State School Aid.

General Fund spending increased 12.3% in FY 2012 as General Fund moneys replaced much of the one-time funding used during FY 2010 and FY 2011. In the fiscal years following FY 2012, General Fund appropriations have increased at an average annual rate of 4.1%.

General Fund tax credits continue to be an increasing component of General Fund obligations. Similar to appropriations, tax credits are used to implement certain public policies. While there are annual fluctuations, the overall trend in the use of tax credits is increasing. The use of tax credits is estimated to reach its highest level in FY 2017 at \$406.6 million.

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